

Fiscal Estimate Narratives

DNR 10/8/2019

LRB Number	19-4209/1	Introduction Number	AB-0476	Estimate Type	Original
Description lead testing of potable water sources in certain schools; providing loans for lead remediation in certain schools; and providing an exception to referendum restrictions for lead remediation					

Assumptions Used in Arriving at Fiscal Estimate

The bill allows Safe Drinking Water Loan Program (SDWLP) funds to be used to reduce the principal and interest rates on Board of Commissioners of Public Lands (BCPL) loans made for the purpose of remediating lead contamination in schools.

I. Executive Summary

As proposed, the bill would violate federal regulations in several ways, thereby jeopardizing the annual SDWLP capitalization grant that DNR receives from U.S. Environmental Protection Agency (EPA), and potentially leading to the loss of all federal funding for WI. Without the capitalization grant, and with up to 20% of the Drinking Water State Revolving Fund (DWSRF) being awarded to schools as non-repayable annual subsidization (essentially a grant), annual drinking water infrastructure costs for municipalities will increase significantly as the stability of the Safe Drinking Water Loan Program (SDWLP) declines.

II. State Fiscal Effect

A. Costs

1. One-Time Costs

The Department would incur one-time costs associated with setting up the new program. The proposed program is significantly different from the existing SDWLP program in that it establishes a new eligible entity (schools); creates a new funding mechanism (reduce principal and interest rate on BCPL loans); and identifies new project and cost eligibilities (premise plumbing). As such, the DNR will need to:

- Complete the rule revision process;
- Update loan application, forms and processes;
- Develop guidance materials;
- Establish a process for awarding this specific type of financial assistance; and
- Prepare outreach material for the SDWLP website and other relevant platforms.

The one-time workload increase is estimated at 1,500 hours. Assuming an average salary & fringe cost of \$48/hr., one-time costs are estimated at \$72,000 (1,500 hrs. x \$48/hr.).

2. Short-Term Annualized Costs

a. Cost Increases

In years 2 and 3 of the program, impacts to DNR workload associated with the implementation of the program will vary based on the volume of applications received annually. Given the large number of WI schools and the significant financial benefit to schools who participate, DNR expects the number of school applications to be greater than existing SDWLP loan applications.

The Department estimates that the new program would result in approximately 50 applications in each of the first two years of the program and that each application would require a minimum of 180 hours of project manager time (approximate equivalent to 5 FTE). Assuming average salary and fringe costs of \$48/hr, annual reoccurring

costs are estimated at \$432,000 for the second and third years of the program.

b. Cost Decreases

The anticipated loss of the capitalization grant (see executive summary above) would result in the loss of funding for set-aside activities, including wellhead/source water protection; assistance to water systems as part of a state capacity development strategy; small systems technical assistance; and state program management. The capitalization grant includes approximately \$4.7 million per year for salary and benefits for 15 FTEs and 4 LTEs to implement set-aside activities.

3. Long-Term Costs

For year 4 of the program and beyond, the Department expects demand for the Lead-in-Schools program to remain high for several years, however, due to the anticipated loss of the capitalization grant and a limited amount of loan funding available, the Department expects the number of regular loan applicants to the SDWLP to decrease significantly. The Department expects this decrease in workload to offset the increased workload associated with the bill for several years. However, once the majority of schools have remediated any lead contamination issues, the Department expects total applicant volume to decline. The Department does not foresee a rebound in regular applicants to the SDWLP until after the SDWLP begins to receive capitalization grants again and the size of the Fund has grown enough to accommodate additional projects.

B. Revenues

1. Federal Capitalization Grant

For several reasons, the bill as currently worded would violate the federal regulations governing the SDWLP. By accepting capitalization grants from EPA, WI has already agreed to comply with DWSRF provisions as well as federal appropriation law requirements. Failure by WI to comply would result in the loss of the SDWLP's annual capitalization grant and could jeopardize the state's ability to receive other federal grants of any kind [see 40 CFR § 31.43(a)(1)-(5)]. Loss of WI's capitalization grant means an estimated annual loss of \$18,754,000 (amount of most recent capitalization grant). Further, if EPA pursued debarment and suspension against WI for improper usage of the DWSRF, the resulting penalty is estimated at \$11.8 billion/year (WI expenditures of federal funds for FY 2017-18).

2. Impacts to Long-Term Health of the SDWLP Fund

As written, the bill would be detrimental to the long-term health of the SDWLP. Using numbers reported in the most recent version of the Biennial Finance Plan for the Environmental Improvement Fund, the Department estimated the funds available for loans in each fiscal year to be approximately \$100 million. The bill would direct 20% of that amount, or \$20 million each year, as subsidy to reduce interest rates on financing from other sources. Normal loan repayments span 20 years. Removing \$20 million just once from the repayment stream would reduce future available funding in the SDWLP over 20 years by \$63.1 million. This lost funding would severely limit the DNR's ability to fund future SDWLP projects. Removing \$20 million from the repayment stream every year would defy the current Federal requirement that the SDWLP be a revolving loan fund in perpetuity, depending on the sources of funding.

3. Revenue Bond Impacts

In addition, the funding of SDWLP projects at a rate of \$100 million per fiscal year presumes a certain level of environmental improvement fund revenue bonds. Loss of capitalization grant from EPA would likely eliminate the State's ability to issue revenue bonds for the SDWLP. Under this scenario, funding for the SDWLP comes solely from repayments of previously made SDWLP loans. In addition, assuming that 20% of the annual available funding was removed pursuant to the bill, the net annual amount of funds available for SDWLP loans would be reduced to approximately \$32-\$35 million each year.

III. Local Fiscal Effect

A. Cost Reductions

Schools would benefit to the extent that the bill would significantly offset the cost of projects to remediate lead in drinking water. Given that these types of projects are not eligible under the SDWLP, cost estimates relating to the potential savings on a school-by-school basis are indeterminate.

B. Cost Increases

As the financial stability of the SDWLP erodes due to the loss of the annual capitalization grant and the diversion of up to 20% of available funds each year as non-repayable additional subsidization, forgivable loans (also called principal forgiveness) for other high priority public health-related SDWLP projects would be completely eliminated and the availability of subsidized loan funding to meet the needs of normal local governmental applicants would be severely hampered. The reduction of available funds for subsidized SDWLP loans will result in higher user fees for water systems users. The annual loss of principal forgiveness combined with approximately \$60 million of projects not funded by the SDWLP that would need to be financed locally result in \$19.4 million of additional debt service costs over a 20-year term. If this loss and reduction continues for five years, the result is \$97.2 million. Further, with a reduced amount of available funds, the maximum number of projects that can be funded by the SDWLP will also be reduced.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2019 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Description lead testing of potable water sources in certain schools; providing loans for lead remediation in certain schools; and providing an exception to referendum restrictions for lead remediation			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): Estimated one-time costs of \$72,000 associated with setting up the new program; including rule revisions, application forms, guidance and outreach materials.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$432,000	\$-4,700,000
(FTE Position Changes)		(5.0 FTE)	(-15.0 FTE)
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$432,000	\$-4,700,000
B. State Costs by Source of Funds			
GPR			
FED		432,000	-4,700,000
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$	\$
GPR Earned			
FED			-18,754,000
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$	\$-18,754,000
NET ANNUALIZED FISCAL IMPACT			
		<u>State</u>	<u>Local</u>
NET CHANGE IN COSTS		\$-4,268,000	\$
NET CHANGE IN REVENUE		\$-18,754,000	\$

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Date

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